LOANS AND TAXES IN WAR FINANCE

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All great wars in modern times have been mainly financed by means of issues of paper money, government and bank notes, convertible and inconvertible, and by borrowing. Convertible paper money has narrowly limited possibilities and can only serve as an adjunct to other financial measures. The financial possibilities of inconvertible paper money, though more considerable, are also quite inadequate to meet the huge expenditures of a great war. Except as an extreme measure of last resort, paper money has therefore come to occupy a subordinate position in war finance. The accepted policy, one the effectiveness of which has been tested by much experience, is to issue paper money sparingly and to secure the bulk of the funds required for war by means of loans. It is commonly believed that if additional taxes are levied during the conflict, sufficient to take care of increasing interest charges, a sound and equitable financial policy has been adopted and that to meet even a small part of war expenditure currently from taxation is a counsel of perfection.

The limitations on the possibilities of paper money as the principal means of financing a war are due to its direct effect on prices. The amount of paper which must be issued is so great that it depreciates rapidly and soon becomes practically worthless. Borrowing has greater possibilities if the people generally subscribe to the loans. It does not necessarily and directly bring about an advance in prices, since a part of a stationary volume of the purchasing media of a country may be used over and over again, as it is secured by the government through successive loans. Changes in the volume of trade or in the rapidity of circulation of money may come during a war and occasion some change either upward or downward in the level of prices. A war will also inevitably cause violent changes in the prices of particular commodities. But in the absence of any increase in the volume of the purchasing media there would necessarily be no considerable rise in the level of prices, unless a country is fast approaching a condition of economic exhaustion.

It is not, therefore, absolutely inevitable that war finance based on borrowing should cause a general rise in prices. It is significant, however, that whenever governments have resorted to this

policy prices generally have manifested a marked and continued upward tendency; though of course to no such degree as when the attempt has been made to finance war by means of issues of paper money.

War loans would not cause an advance in the level of prices if subscribers to the loans made payment entirely either with accumulated funds on hand or with savings made from current income during the period that the proceeds of each successive loan were being expended. In these circumstances the abnormally large demand of a government for goods and labor would be roughly offset by the curtailed demand of the people generally. But the funds secured by governments through war loans are never derived entirely from savings on hand or which become available while the proceeds of a loan are being expended. Voluntary saving is never sufficiently inclusive and rigorous. Even though greater economy is practiced by most people than in times of peace, subscriptions to successive war loans invariably exceed current savings. Many subscribers borrow from banks the funds required to meet their commitments, pledging other property and even the war loan itself. The banks adopt a liberal patriotic loan policy and also subscribe largely on their own account. These transactions, the borrowing from banks and the investments by banks, occasion expansion in the volume of credit, both in the form of bank notes and of deposits, and are the most potent single cause of the general advance in prices during periods of war. Purchasing power in the possession of the people is reduced by the loan, but not to the full extent of the purchasing power secured by the government. With this purchasing power the warring government enters the market for goods and labor in competition with its own citizens. The government demand is so insistent that it is not lessened by advancing prices. There is simply a more speedy exhaustion of the proceeds of the loan. On the other hand, the demand of the people for goods and labor is reduced in consequence of rising prices. Through this roundabout process a smaller part of the total current products of industry is consumed by the people in the ordinary ways of peace, and a larger part in the shape of military material of all sorts is secured by the government and consumed in the channels of war.

In the course of time, as the proceeds of a loan approach exhaustion, a larger proportion of the total volume of the purchasing media of a country gets back to the people. Another loan is

then required unless the government is to resort to unlimited issues of paper money. The successful flotation of a new loan or the continuous sale of short-time obligations again provides a government with the means to enter the market in competition with its own citizens. This process of borrowing and spending can continue for an indefinitely long period if the people are prepared to make the necessary sacrifice of income, and provided also that not too great a part of what is subscribed to each loan consists of additional borrowing from or investment by banks, involving further credit expansion. In other words, a considerable part of each loan must represent savings, a sacrifice of current income on the part of subscribers; otherwise credit expansion will be so rapid as to threaten with collapse the entire credit structure in a fashion analogous to that which results from issues of paper money.

Even if there is an increase in voluntary saving during the course of a war, it is unlikely to be sufficient to counteract fully various influences tending toward a continuous upward movement of prices with each successive loan. With the progress of a long war the output of commodities of all kinds can hardly fail to undergo some diminution as more and more men are required for military service. No corresponding contraction in the volume of the purchasing media is, however, to be anticipated. On the contrary, as a means of facilitating the marketing of successive loans, a policy of continuous, even though moderate, credit expansion is practically certain to be adopted. An easy money market is a desirable, one may even say an essential, condition for carrying through the distribution of a government loan among investors. The process of marketing must be made as easy and simple as possible. Slowly expanding credit and the issue of short-term obligations which may be converted into long-time loans are most helpful devices. Credit contraction is naturally out of the question. Thus while the vital importance of strict economy is being everywhere urged, these easy monetary conditions enable many to satisfy their patriotic impulses by borrowing the funds which they subscribe to war loans, and at the same time postpone the sacrifice of accustomed luxuries and comforts to a more convenient season. Among those also who practice the most rigid economy there are many who subscribe by means of loans much more than they have been able to save. So far as the individual is concerned, future savings are invested in advance when he borrows in order to subscribe to government loans, but until he pays off his loans the ar-

rangement commonly involves an increase in the volume of credit and so contributes to the advance in prices.

It is also to be noted that the initial advance in prices works against that general discontinuance of all unnecessary consumption in order to subscribe to war loans, which is needful if still further price advances are to be avoided. A war inevitably causes radical changes in many incomes. Those engaged in the production of articles for which there is an intense government demand secure exceptionally large wages and profits. Meanwhile the incomes of those engaged in a large number of other pursuits remain stationary or decline. Changes in income would be numerous even though the level of prices remained stationary. Both the number and extent of these changes are, however, much increased in consequence of rising prices. While the real income of the vast majority is reduced, that of a considerable number is enlarged in some instances to an extraordinary extent. These undeserved and temporary gains tempt many to extravagance in consumption. During the tragic course of the present war, the increasing readiness of the peoples of the warring countries to impose additional taxation is at least in part due to the desire to check positively indecent extravagance on the part of those whose incomes have been thus undeservedly increased.

All these conditions and tendencies have been present in the various belligerent countries during the present war. The crisis occasioned by the outbreak of the war, the readjustment of industrial activities, as well as the expense of mobilization, were in a large measure financed through the banks. In Great Britain, where checks are generally used, there was an unparalleled increase of credit in the form of Bank of England deposits. In continental countries there was an analogous increase in bank notes issued by the great central banks. As in the case of an ordinary financial crisis, this expansion of bank credit was a proper and effective means of meeting the sudden requirements occasioned by the outbreak of the war. Unlike the usual course of events following crisis, however, there was no contraction of credit after the period of initial strain had passed. On the contrary, the volume of credits has tended to increase from month to month. Rates for short-time loans have been maintained in the various European money markets in the neighborhood of 5 per cent throughout the war. In both France and Germany there has been something like a threefold increase in the note issues of the central

banks of those countries, and in Great Britain a corresponding increase in the deposits of the Bank of England. Deposits in other banks in all the belligerent countries are also vastly greater than they were two years ago. In the meantime prices everywhere have advanced, the index number of the *Economist,* for example, registering an advance from 116.6 in July, 1914, to 153.2 in October, 1915, and to 217.1 at the end of November, 1916.

Borrowing as the principal means of financing a war, it will thus be seen, has some of the defects of paper money. Though not so directly nor to so great an extent, the borrowing policy is practically certain to involve a general advance in prices, which in turn increase the money costs of a war and also cause much undesirable variation in incomes. Against war finance based on borrowing there are, however, other and far more serious objections. It is manifestly unjust and inequitable because it gives not only to property acquired before a war but also to income received during its progress a far higher degree of consideration relative to life than is accorded to them in times of peace. In adopting the borrowing policy a government accepts in the field of finance the voluntary principle without qualification. Interest as a reward is offered at whatever rate is required in order to secure the necessary funds. An analogous situation would present itself if governments relying entirely upon voluntary enlistment offered successive increases in the pay of soldiers whenever the supply of volunteers was inadequate. When wars were waged by small professional armies, the appeal to economic motives was effective in securing an adequate number of recruits. Such appeals obviously would not provide the large armies engaged in modern warfare. Voluntary enlistment from patriotic motives has been tried, but its inadequacy as well as its lack of equality in sacrifice has been made apparent during the course of the present war. Compulsory service will certainly be the policy adopted by belligerent countries in all future wars. Immediate military exigencies will compel resort to this method of raising armies.

Conscription of men should logically and equitably be accompanied by something in the nature of conscription of current income above that which is absolutely necessary. The obligation that each citizen furnish the state in case of war a large portion of his current income manifestly would impose no more oppressive burden than the obligation of military service. To be sure, the pressing necessity which leads to compulsory service is absent

since it is possible to finance a war by means of borrowing. Yet as a permanent war finance policy, borrowing has limitations which should exclude it from any comprehensive scheme of military preparedness. Modern wars are so enormously costly that a country which resorts to borrowing has not merely created for itself a difficult problem of taxation after the return of peace; it has also placed itself in a financial position which will make it exceedingly difficult to find the money to maintain and improve its military establishment in future years; it is also likely to find itself quite incapable of financing another war in the near future. Purely as a military measure, then, the conscription of income during a war should be adopted unless such a policy would prove in any way a serious obstacle to the effective conduct of hostilities.

The injustice of treating those who provide the funds for war purposes more generously than those who risk life itself will not be questioned. Consider for a moment the contrast under the borrowing method of war finance between a soldier in receipt of an income of $2500 before a war and his neighbor who remains at home in continued receipt of a similar amount. The civilian reduces his expenditures in every possible way and subscribes a total of $4000 to war loans. He is rewarded with a high rate of interest to which his soldier neighbor must contribute his quota in higher taxes if he is fortunate enough to return from the front. The contrast becomes still greater if, as often happens, the income of the stay-at-home increases during the war and if he is able to secure a superior position. On the other hand, the soldier often finds it difficult to secure a position as good as that from which he was taken at the beginning of the war.

But if borrowing as the principal means of financing a war is so evidently unjust, it is pertinent to inquire why this policy has been so generally adopted and approved. The explanation is in part found in a common misconception regarding the relative importance of the various sources from which the funds subscribed to war loans are derived. Not infrequently it seems to be supposed that war expenditure involves something like an equivalent devotion to war uses of capital and other wealth which were in existence before the outbreak of hostilities. To an audience of economists it hardly needs to be observed that in any event the greater part of war expenditure is derived from current income, most of which but for the war would have been devoted to the satisfaction of individual wants and so completely consumed.

Most of the capital and other property in existence within a country at the beginning of a war is not and cannot be converted into funds with which to prosecute the conflict. Property can, of course, be sold and the funds secured from the sale subscribed to war loans, but such transactions are merely transfers and do not increase the amount of funds within the country available for war purposes. Aside from the sale of securities in foreign countries and the exportation of gold and other valuables, a country cannot convert any large part of its past savings into uninvested funds. Modern warfare requires the use of a large part of the capital equipment of a country and it must therefore be maintained throughout the contest in a high state of efficiency. A part of the capital invested in a plant which cannot be employed for military purposes may, indeed, be idle because there is no demand for its products. Factories for the production of luxuries may be taken as an example; though it may be noted that during the present war some use has been found for nearly every variety of factory and workshop. Factories for which a use cannot be found may not be kept in repair during a war, and if it lasts long enough may fall into complete decay. The loss will be one of the costs of the war but will in no way contribute anything toward necessary military expenditure. Capital in the form of stocks of goods may gradually become available as the proceeds of sales are invested in government loans rather than in the replenishment of stock. Similarly, durable goods in the possession of consumers, such as clothing and furniture, may be made to last an abnormally long time and only absolutely necessary replacements may be made. In this way the accumulated possessions of the people may contribute to to the conduct of a war, not by being used directly, but because they enable the people to devote a larger portion of income to war purposes than would be possible if at the beginning of the war their personal belongings were less abundant and durable.

In these various ways a considerable amount of funds for war purposes can be extracted from the capital and other property in existence before the outbreak of hostilities. A borrowing policy (aside from foreign loans) which should limit borrowing to antebellum wealth which might become available for new investments, would be entirely consistent with the equities of the situation created by war. But by far the lion's share of the funds subscribed to war loans is not derived from this source. It represents new savings from current income and the curtailment of in-

dividual consumption brought about by rising prices. If all these savings, and also the income which might have been saved but is in fact expended, were taken by the tax gatherer, it is certain that there would be slight need for domestic borrowing. Much of the preëxisting capital as it became available for new uses could be reinvested in those particular branches of industry in which additional facilities seemed to promise satisfactory returns.

General acquiescence in the policy of borrowing for war purposes is by no means to be attributed solely to misconceptions regarding the relative importance of the sources from which funds subscribed to war loans are derived. It is also commonly believed that by borrowing the burden of war costs is shifted from the present to future generations. Such shifting is in large measure illusory. A burden can indeed be placed on future generations, but the generation conducting the war does not escape. A nation at the end of the war is poorer by the amount that its capital and other wealth is less than it would have been if there had been no war. This loss is inevitably greater if the borrowing rather than the taxation policy is adopted, because, as we have seen, borrowing does not reduce unnecessary consumption to the greatest possible extent.

Taking a community as a whole, a war debt is of course in no sense an asset. This would be evident enough if the ownership of the debt was distributed among the people in exact proportion to the additional taxes which they must pay in order to meet interest and sinking fund requirements. Owing to the manner in which the debt is in fact held, it alters to the disadvantage of the great majority of the people the distribution of the total income of the community. On the return of peace those who served in the armies will, generally speaking, enjoy a smaller share in the national dividend because they were deprived of the opportunity to earn income from which savings might be made for subscriptions to war loans. Large numbers of those who remain at home either because of a decline in their incomes or on account of advancing prices are also unable to save their quota of the war debts, and consequently find themselves in a less favorable position than at the beginning of the war. A fortunate and perhaps more thrifty minority become owners of the government debt and enjoy a rent charge on the income of the community which continues until the principal of their claim is returned to them.

There is one conceivable arrangement under which the burden

of a war debt might be transferred entirely to future generations. If interest did not begin to accrue on the loans for twenty or thirty years after they were issued the generation conducting a war would escape. Even so, the immediate relief would be less than that which might be secured if the war were financed by taxation. Extravagant consumption would not be so completely curtailed and consequently to a somewhat greater extent the war would be financed from capital existing before the conflict which might become available for new investment during its progress. But this plan is obviously impracticable. Inasmuch as loans cannot be floated on a deferred interest basis the generation which conducts a war by borrowing must shoulder an increased burden of taxation for the benefit of those who were fortunate and prudent enough to subscribe to government war loans.

To war finance based mainly on borrowing there are, then, fundamental objections. During the years immediately following the conflict it impairs the ability of a country to keep up its military preparations, to say nothing of its power to undertake another war. It accentuates the redistribution of incomes during a war. It is unjust to all those who serve in the armies and also to many who remain at home. It enables a small section of the population to enjoy undiminished or enlarged incomes which are either expended extravagantly or become a claim upon the income of the community for an indefinitely long period in the future.

But although in all these ways borrowing as a means of financing a great war is most unsatisfactory, it has one advantage which cannot be questioned. It works. If a people are heartily in favor of a war, directly through the funds subscribed to loans and indirectly through the forced economy of those with stationary or declining incomes occasioned by rising prices, governments can secure command of a very large proportion of the labor force in a country and the use of much of its capital. Large armies can be formed and supported and enormous quantities of military supplies can be produced. Even though the burden is unevenly distributed, the transfer of labor and capital from the activities of peace to those of war is successfully accomplished.

It boots nothing, therefore, to dilate upon the equity and remote advantages of taxation over borrowing, unless it can be shown that by some other method the productive forces of a country can be as speedily transferred and as effectively exerted in the production of the large and varied supplies of material required

in the conduct of a modern war. Equity would indeed sanction taxing away all income received during a war in excess of that which each citizen had received during the year preceding the conflict, and also so much of ordinary income as was not needed for absolutely necessary consumption. Taxation on this onerous scale would virtually eliminate the ordinary economic motives for effort and sacrifice. What would be the effect on production? There is no experience whatever on which to base a judgment. I venture to think, however, that no serious difficulties would be encountered when millions of men were fighting in the trenches during a great war in which a people believed that its vital interests were at stake.

In the first place, it may be stated with confidence that all the various considerations of which account must be taken in framing a permanent taxation policy have no bearing when it is a question of taxation for a limited period and for a specific purpose. Accepted canons of taxation and most economic principles have no application amid the conditions which develop during a great modern war. It is not necessary, for example, to take account of the effect of onerous taxation on saving and on the investment of capital. It is the avowed purpose of the state to secure through taxation all that can be saved. Onerous income taxes will not weaken the motive for maintaining the capital which was in existence before the war, because it will become the basis for the accustomed return to its owners upon the restoration of peace. In any event, whether the state borrows or taxes there will be less capital at the end of the war than at the beginning. But as we have seen, a greater part of the capital of the country is likely to be absorbed under the borrowing policy because it does not reduce individual consumption to the greatest possible extent.

It would seem at first sight that if no income could be saved for investment during a war serious difficulty might be encountered in securing the necessary additions to plants required for the production of munitions and other military supplies. Experience during the present war, however, proves quite conclusively that these requirements are too great and immediate to wait upon the slow processes of the adjustment of facilities of supply to demand working through prices and business profits. The warring governments have been obliged to undertake the erection or direct control of plants and the organization of production, not only of munitions but also of other indispensable articles. Much has of

course been done by private enterprise but commonly under conditions which guaranteed against loss. Both these methods would be equally feasible even though there were no new savings available for investment. Within moderate limits, the cost of converting plant to war uses could be charged as at present to operating costs and not to capital account. Much capital also would become available for investment through the liquidation of capital in branches of industry unfavorably affected by the war. It would also be quite possible, and indeed this has happened during the present war, for governments to make advances of funds to private concerns for capital expenditure.

During a great war it would also seem that the chance of making large profits is not needed to secure persistent effort and readiness to assume business risks. Patriotic motives in the business and financial world even now in some degree take the place of ordinary economic motives, even though no strong appeal has been made to them. But it is also to be noted that business risks are far less than in times of peace even under conditions as they develop when a war is financed by borrowing, and these risks would be still further reduced if the taxation policy were adopted. In any event, the warring state takes a leading rôle in determining the direction of production. A large part of the total output of industry is in response to government orders. Those who supply the wayward demands of the few whose incomes have been increased by war do indeed incur serious risks. But if all income were heavily taxed there would be little or no demand of this character. Marketing risks would be reduced to a minimum, since virtually all the labor and capital of a country would be employed in producing articles of necessary consumption and military supplies.

Finally it may be observed that the evident justice of a policy under which no one would reap an economic benefit from a war, even though it might cause some relaxation of effort on the part of a few, would certainly stimulate the vast majority of people to greater efforts. In England, for example, during the present war, the large gains and extravagance of a few have caused serious discontent in labor circles, a grievance which was in some degree finally removed by means of the excess profits tax.

The abrupt curtailment of individual consumption which would come with the adoption of this taxation policy would occasion no serious disturbance in the labor markets. In all the warring countries it has been found necessary to utilize the labor of women to

an unprecedented extent. The enormous number of men absorbed in the armies, together with the large government demand for goods, has much more than offset the reduction in the demand for labor in various peaceful pursuits.

More serious difficulties might be encountered by those having capital invested in the luxury trades. But thanks to the great variety of modern military requirements, a use can be found for much plant of this kind. It is reported, for example, that during the present war even candy kitchens and photographic studios have been utilized. Supplies of articles of luxury on hand can largely be disposed of in neutral markets. Moreover, the consumption of luxuries in a warring country would not be entirely discontinued, if as they properly should be, rates of taxation were so limited as not to occasion a serious change in the standard of life of any class in the community. During a great war it would be entirely equitable to tax far beyond the limit set by the standard of life, but practical considerations forbid. Taxation which would make necessary revolutionary changes might well occasion a greater loss in efficiency than would be offset by the gain in revenue. To take anything like half of incomes of say $3000 would be equitable, but it would involve changes in the manner of living which could only be made with the very greatest difficulty. On the other hand, to tax 50 per cent of incomes of $40,000 or 90 per cent of incomes of a million or more would still leave enough to permit in all essentials the maintenance of the standard of life to which the recipients of such incomes are accustomed.

It is of course impossible to determine in advance of experience just how far it would be possible to go in financing a war by taxes on income. Tentatively, and mainly for illustrative purposes, the following scheme of taxation may be suggested. All incomes, or at all events 90 per cent of all income, in excess of the average annual income received during the two years preceding a war should go to the state. This proposal simply involves an extension of the excess profits tax which has been adopted very generally during the present war. In addition ordinary income should be taxed "to the bone" but not beyond the point which would still leave every class of taxpayers sufficient income to maintain the essentials of its customary standard of life. Let us assume as a starting point a special war tax of 5 per cent on incomes of $1500, or perhaps $1200, of 10 per cent on incomes of $2000 and of 20 per cent on incomes of $5000. By successive stages the rates

would be increased until 50 per cent of incomes of $40,000 and, let us say, all income in excess of $100,000 were taken by the state during the period of the war. These taxes would after all represent nothing more than patriotic citizens might be expected and urged to save and to invest in government loans under the borrowing policy of war finance. The imposition of these taxes would of course require a reorganization of all war charity, but the alleviation of much of the distress occasioned by war which is now left to private benevolence is properly a government function and could be far more effectively handled through its agency. In addition to taxes on income, special taxes on a few articles entering into general consumption should be imposed. A tax on sugar of five cents a pound, with correspondingly heavy taxes on tobacco and beverages, alcoholic and non-alcoholic, would presumably be sufficient for the purpose of reaching those whose incomes are too small to warrant resort to direct taxation. A high tax of say fifty cents a gallon on gasoline and on other articles of which enormous quantities are required for military use would also be advisable.

A war finance policy based on taxation presupposes that a country must have established and in operation highly developed income-tax machinery in time of peace, so that it may have at its disposal full information regarding the income of its citizens. It would also seem essential that the policy should have been carefully considered and that the people should have definitely decided in favor of its adoption as an integral part of its military program. It would indeed be highly advantageous to enact legislation authorizing the imposition of war rates of income taxation by executive proclamation upon the outbreak of hostilities. It might also prove advisable to provide that the tax rates to be imposed at the outset should be at half the rates which would become effective at the end of a period of six months of war. By that time the initial disturbance occasioned by the outbreak of war would have passed and it would be possible to judge with some certainty whether the country was engaged in a long and arduous contest.

This paper is primarily concerned with the underlying principles which should determine financial policy in time of war. But a few matters of less fundamental importance may be given passing consideration. As regards the proposed income taxes, a single annual collection would be unsatisfactory on fiscal grounds. The

enormous payments to be made might seriously dislocate the banking machinery of a country. Monthly or quarterly payments would in large measure meet these difficulties. Payment of the taxes at frequent intervals would also reduce to a minimum loss of revenue from irresponsible individuals who otherwise might spend in extravagant consumption the funds which should have been set aside to meet the tax on their incomes. It would also be desirable to provide that tax payments might be made in short-time interest-bearing obligations of the government. Purchases of these obligations by those subject to income tax would provide a government with a reasonably steady supply of funds probably quite as effectively as under the present financial policy based on borrowing. In order to provide a comfortable working balance and to meet initial expenditures, a government loan at the beginning of a war would probably be necessary. Such a loan, absorbing uninvested funds accumulated before the conflict, would not run counter to the equities of the situation created by war.

War finance based on taxation has many advantages over either the paper money or the borrowing policy. One of these advantages, even though it is not the most important, may properly be given special consideration, because it would contribute much to the feasibility of the taxation policy. Both paper money and borrowing, as we have seen, are certain to bring about a general advance in the level of prices. It will, I think, be readily granted that a belligerent country which financed itself entirely (aside from foreign loans) by means of income taxes, supplemented by taxes on a few commodities, would experience little or no advance in the general level of prices. There would be no influence at work tending toward an increase in the total volume of its purchasing media. Surely not many would seek loans from banks for the purpose of maintaining accustomed expenditure, and banks certainly would not give favorable consideration to such loans. Prices in neutral countries would of course advance if they were resorted to for supplies on the scale witnessed during the present war. But it is one of the advantages of the taxation policy over borrowing, that it would greatly reduce the volume of goods imported to a warring country. Imports of luxuries would inevitably fall off. Moreover, owing to the smaller demand for luxuries produced at home, more labor would be set free for the production of necessaries and of military supplies, thus in turn reducing importations of such commodities.

The adoption of the taxation policy would not of course eliminate all changes in income during a war. It would, however, diminish the number of such changes and also confine them within narrower limits than is possible under the conditions of rapidly rising prices, which are found whenever a war is financed by means of paper money or borrowing. Comparatively stable prices would facilitate the execution of the income-tax policy in two ways. In the first place, the amount of excess profits as well as the number in receipt of such profits would be far less considerable than has been the case in past wars. And second, the special war tax on ordinary income would occasion less disturbance, since the necessary curtailment of expenditure would be more exactly estimated by the people generally if something like the accustomed level of prices were maintained. To those in receipt of stationary incomes of moderate size, it may be added, the proposed taxes would be less burdensome than the deprivation resulting from the rise of prices under the borrowing policy in the countries now at war.

The avoidance of rising prices is by no means the most important of the advantages to be derived from financing a war by taxation rather than by loans. There are indeed a number of other advantages which are of decidedly greater importance. To finance a war to the greatest possible extent currently from taxation is just. It would place all citizens upon an equal footing in so far as war conditions will permit. It would leave a country in far better position to make preparation for and to conduct future wars if they unhappily should come. The return to peaceful activities would be enormously simplified. Taxation would then be somewhat more burdensome than before the war, but the increase would be insignificant in comparison with that which must be borne if the borrowing policy is adopted. Moreover, the proceeds of the additional taxes would be used chiefly to relieve the families of those who were killed or the soldiers who were incapacitated during the war. The danger that class antagonism may develop even to the point of revolutionary outbreaks would be eliminated. Finally the taxation policy would leave a country in a vastly better position for further industrial development, to compete in the markets of the world and above all to take up its social and other civilizing activities more nearly where they were interrupted at the outbreak of hostilities.